Circular Fashion Holistic Approach

Regenerate — Take

1. Design

5. Recycle Upcycle

Circular economy in retail

2. Produce

4. Use – Community

Multi touchpoint environment

3. Retail
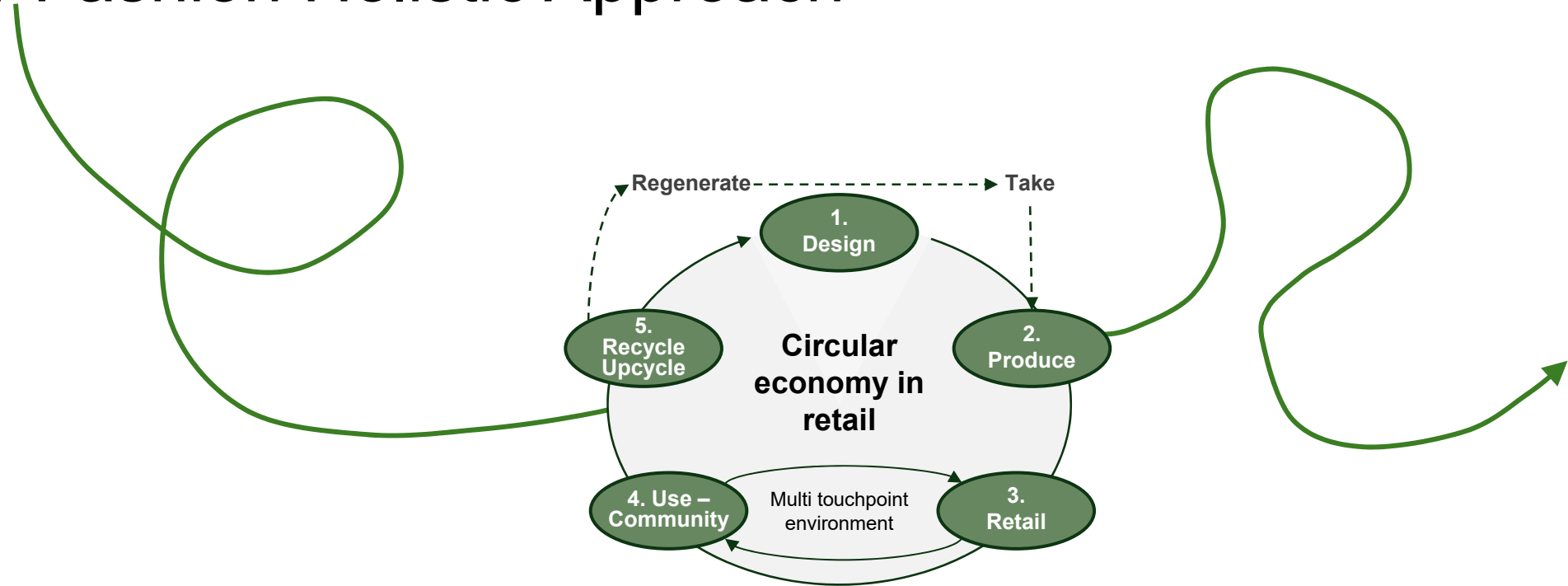
Four major forces accelerating adoption of circular fashion

- Sustainability has rapidly reached top priority in the fashion industry and is expected to determine systemic transformation in the near future. Four simultaneous driving forces are accelerating change:

1. **Consumer demand**: brand and shopping choices are increasingly driven by sustainability
   - For 75% of UK consumers <u>companies' environmental policy</u> critical for shopping decisions, with one-third willing to switch to more sustainable brands[(*)]
   - On third of consumers willing to <u>pay more for sustainable products</u>; 85% purchased green alternatives in the last five years as a commitment to reduce their carbon footprint

2. **New regulations:** will enforce radical reshape the fashion and retail industries, as:
   - **The Fashion Act**, demands supply chain mapping and environmental impacts
   - **Americas Act**, 15% tax reduction for businesses in reusing, renting, repairing, sorting, recycling
   - **French law**, €5 added on ultra fast-fashion purchases, €5 bonus sustainable clothes purchases

1. Consumer demand
Expectations, shopping habits

2. Regulations
Laws setting constraints and targets

Circular Fashion

3. Ethics
Spreading values on sustainability

4. Technology
Habilitating end-to-end information

3. **Ethics:** build a better future and protect next generations
   - 27% Americans, identified as <u>'Planet Protectors,'</u> show a strong commitment to environmental issues [(**)]
   - 62% of Gen Z prefer buying sustainable brands discarding the <u>wear-it-once culture</u> that generated waste and unsold stock
   - moral obligations of meeting today's needs without compromising tomorrow's needs

4. **Technology**: tech evolution habilitates most of circular fashion stages
   - advanced AI tools to improve <u>retail planning</u> and reforecast, <u>dematerialization</u> of product design and development, <u>product passport</u> to deliver traceability
   - <u>reverse logistics</u> tools to grow resale, fashion on-demand to minimize unsold inventory and carbon footprints, blockchain technology for recycling process

Circular Fashion 5-stage Holistic Approach

- Circular Fashion Holistic approach aims to drastically reduce consumption of raw material and environmental impact of production, to extend product lifecycle, to almost eliminate waste and incineration. To achieve the targets that most retailers have identified, 5 key stages should be on place:

1. Design

- Products need to be conceived, developed, manufactured within the circular fashion strategy. Longer lifecycle, sustainable, recycled fabrics, fully traceable, ready to sustain resale and rent, easy to recycle

2. Produce

- Full control of the manufacturing process including raw material, yarns and threads, fabrics, trims, final assembly, distribution. Control of environmental impact at every stage linked with full traceability of all stages

3. Retail

- Increased number of interactions with customer. Beyond first-hand products, growing types of transactions are represented by subscription, resale, rent, repair, on-demand. Reverse logistics critical to empower most of them

4. Use-Community

- Growing interactions with retail and among customers. Priority to higher product quality, product care, repair to extend lifecycle. Expansion of sharing economy will boost secondhand and rent evolving the principles of product ownership

5. Recycle-Upcycle

- In product design, improved AI planning reduce excess of merchandise. In post-customer phase, full control of the recycling principles to maximize fiber-to-fiber re-use. Technology allows process monitoring and effectiveness
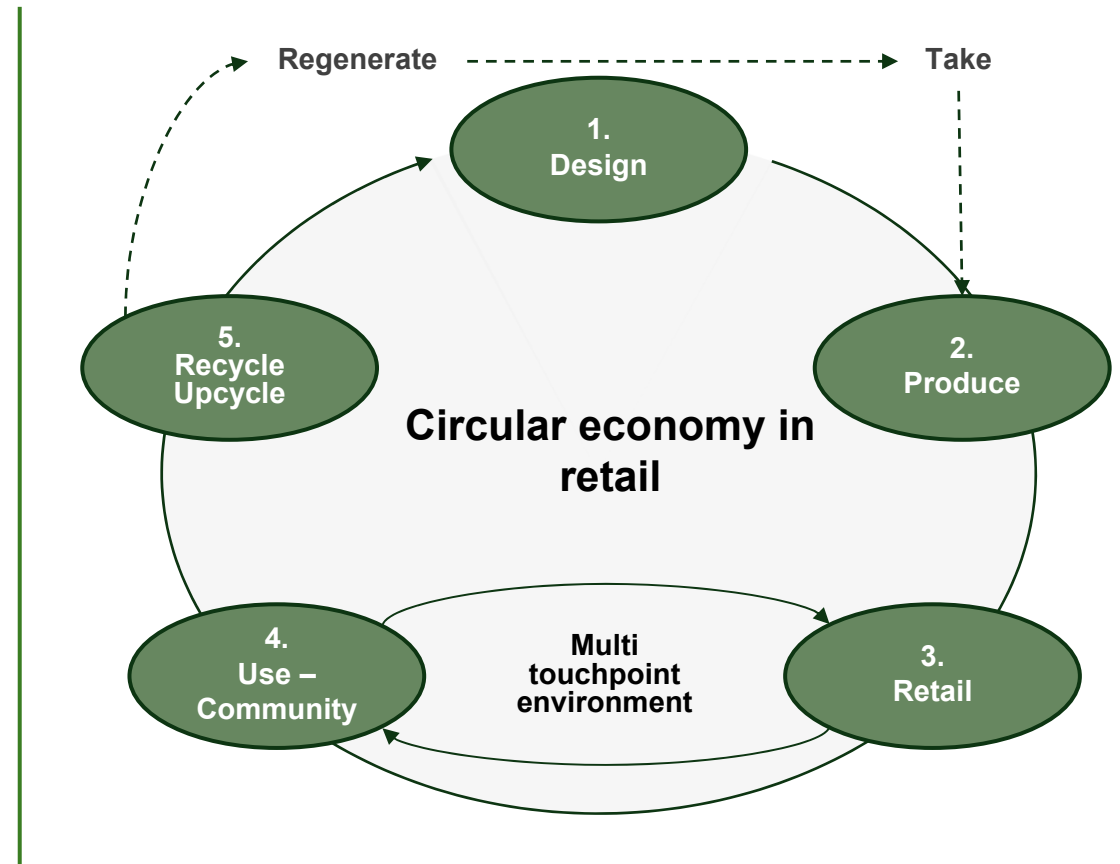
Design

1. Design

- Eco-styled:
  - sustainable, circular, virtual sampling
- Made of:
  - natural, recycled yards and fabrics
- Shared:
  - transparent, digitally traceable
- Planned to:
  - minimize unsold items at the end of lifecycle
- Produced by:
  - ethically selected suppliers
- Developed to be:
  - repaired
  - resold, rent
  - recycled, repurposed
  - regenerated

Product design is the first fundamental stage of circular fashion as it must be compliant with the objectives, the parameters, the operational, the available services in each business

Key principles:

- developed with virtual sampling minimizing physical samples and waste generated by pattern cutting or fittings

- made of natural, recycled yards and fabrics, it should take into account the outcome of the recycling process to minimize use of new resources

- product construction and materials thought to be recycled with highest efficiency and lowest energy. For instance, garments made with multiple fibres are more difficult to recycle

- trims, adornment, packaging developed in line with environmental impact and with recycling targets

- habilitated to be digitally traced across the highest possible number of production tiers. Internal tools as PLM allow control of most sustainability parameters

- planned with AI-powered retail planning tools to minimize unsold stock. Shorter lead times to release Open To Buy and react to current performance

- Suppliers selected based on respect of ethical principles as fair wages, safe and healthy working conditions. But also on the capability to trace products and to measure environmental impact

- Overall, collections developed to be part of the multi touchpoint environment between retail and customers:
  - longer products lifecycle also achieved through repair and maintenance
  - suitable to be resold and rented several times
  - recycled and repurposed to other scopes at the end of lifecycle
  - products are biodegradable so that they close the sustainability process

Produce

Manufacturing involves traceability of all stages from cultivation to distribution center, measurement of environmental impact, minimized emissions, introduction of product passport

Key principles:

- Progressive introduction of product traceability - from Tier 0, the closest to retail, to Tier 4 cultivation – to achieve full control of what is being carried by whom and in which way across the supply chain

- It represents the roadmap to building robust, responsive organizations that take ownership of carbon and water footprint, use of renewable energy, reduction of greenhouse gas emissions and hazardous chemicals, respect of ethical practices

- This includes near shoring initiatives to reduce emission of logistics and to make lead time shorter which converts in faster reaction to trends and less unsold items

- Extended product attributes are critical to define the KPIs, to measure progress and to aggregate achievements

- Tools as PLM play a pivotal role across all stages from product initial development, relation with supplier, quality control after production

- Traceability means transparency. Companies expected to track sustainability level, identify inefficiencies, respond effectively. Customers and communities will be fully informed about what they buy and the impact of shopping on environment

- Product Passports and Product IDs will spread leveraging technologies as blockchain, RFID, QR codes and near-field communication; a unique identifier linked to each garment will enable access full supply chain information to customers

- Product passports can store information on materials, how and where a garment was made, and working conditions in factories, offering greater transparency to eco- and ethically-conscious stakeholders and customers

2. Produce

Responsibility in the 5 main stages of product manufacturing and delivery:
- Tier 0 - distribution centers, offices, retail ops
- Tier 1 - finished production, assembly
- Tier 2 - material production, fabrics, components, trims; remanufacture
- Tier 3 - raw materials into yarns, threads; recycle
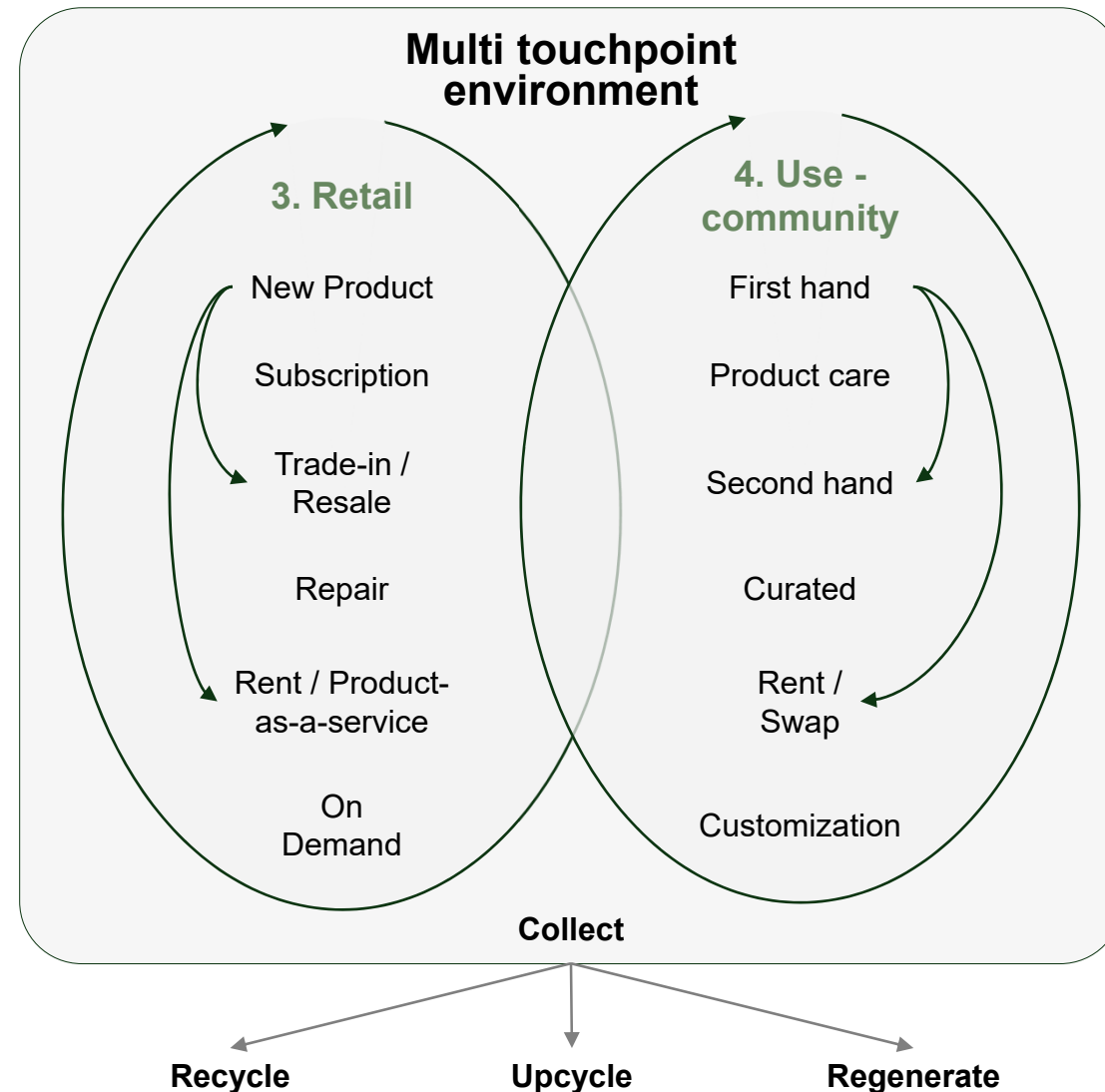- Tier 4 – regenerative cultivation, farming, extraction of raw materials

Ownership of:
- carbon and water footprint
- renewable energy
- greenhouse gas, hazardous chemicals
- respect of ethical practices
- Implementation of Product Passport

Retail, Use-Community

- *The retail business model will undergo deep evolution: traditional one-way, brand to customers product flow, will convert into multiple interactions, changes of ownership, different sales mix between products and services*

- *Retail operations will evolve to deliver broader services and 2-way product flows*

- *Reverse logistics across all channels will be a critical success factor*

- *The <u>resale market</u> is expected to exceed $300 billion by 2027 with an average CAGR of 12%, according to ThredUp. The <u>rental market</u> according to Globaldata, is expected to reach $10b by 2027 with average CAGR beyond 11%*

Multi touchpoint environment

3. Retail

New Product

Subscription

Trade-in / Resale

Repair

Rent / Product-as-a-service

On Demand

4. Use - community

First hand

Product care

Second hand

Curated

Rent / Swap

Customization

Collect

Recycle   **Upcycle**   **Regenerate**

- *Customers shopping habits will keep evolving driven by increased awareness of fashion emissions, pollution, waste*

- *New values determine renovated relation with physical products, further separation between gratification and ownership, new drivers for brand engagement*

- *Key expectations influencing shopping decisions are <u>transparency</u> on product traceability, longer <u>lifecycle</u>, innovative <u>channels</u> to purchase and return items, <u>customization</u> options*

- *Relations with retail will get tighter and stronger as never before together with increased direct exchanges among customers*

Retail, Use-Community

3. Retail

Key principles:

- New products made with full sustainable awareness: recycled materials, regenerated agriculture, designed to last longer, to sustain secondhand and rent, available with product passport, traceable by customers

- Subscription models are expected to grow; they will increase customer loyalty and will reduce unsold products with more precise sales prediction

- Repair services available in store; they allow longer product lifecycle, will generate marginal revenue, will increase customer frequency of visit

- Reverse logistics available to return products for being resold and recycled. Rewards available to incentivize customers

- Resale available for own brand, occasionally for other brands' products; both on all direct channels and on third party platforms. These may also include product certification mostly for higher scale brands

- Rent available on selected categories accelerating the shift to product-as-a-service

- On demand manufacturing available on selected products and categories to reduce unsold products

4. Use-Community

Key principles:

- Purchase of firsthand product will decrease in absolute and in percentage compared to other channels

- Improved product care will mark the difference against the growing disposable fashion habits in last years

- This also converts into product repair and maintenance. Sales mix will shift toward services

- Growth of product personalization and alterations epitomizes the shift in habits: longer lifecycle, customized and unique items

- Unwanted items are suitable for resale which may take the shape of relation with other customers, take back service to retailers in exchange of rewards, consignment services with marketplaces

- Purchase of resale products becomes widely accepted initially driven by Gen-Z progressively across wider segments of population

- Product rent will also gain traction mostly in selected categories, accessories, special occasion. Again available both as direct transaction between customers and mediated by brands and retailers

Major shifts	
• *Revenue mix, growth of second hand, rent, services* • *Increase in unit price linked to higher quality and durability* • *New store operations to handle take back, returns, product certification* • *New solutions to handle reverse logistics, rent, rewards*	• *New Clienteling tools to handle broader sales options to registered customers* • *Different reasons to attract customers and to visit stores* • *Different contents of customer communication* • *New store skills required to deliver radically different customer journey*

Recycle, Upcycle

5. Recycle, Upcycle

- Reduce unsold items:
  - improved AI-based planning tools
- Post consumer recycling:
  - closed loop priority on open loop
  - fiber-to-fiber priority
  - depolymerization to create new fibers
  - near infrared spectroscopy to identify fibers
  - separation of synthetic fibers from cellulosic ones
- Blockchain technology to manage recycling process
- Open loop system - repurposing textiles into trendy fashion items, accessories, home décor
- Regeneration into biological resources

Product recycle, upcycle close the loop of sustainable fashion allowing the production of new items, new end-uses. It also allow to feed regenerative cultivation to produce new raw material
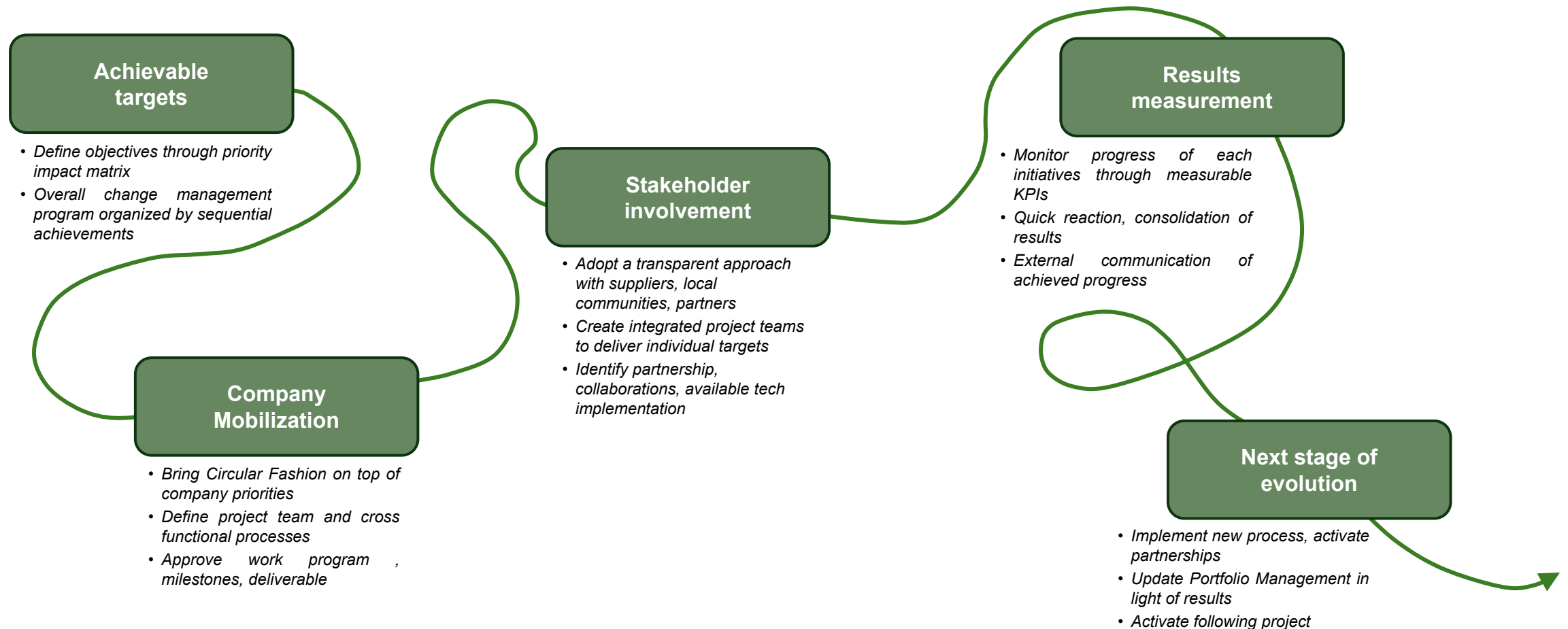
Key principles:

- First stage of waste reduction is evolved retail planning. AI powered planning tools allow lower stock and quicker reaction during sales

- Priority is <u>closed loop fibers</u> recycling. Fiber-to-fiber recycling allows to feed production of new garments. This is still a challenging goal to achieve extensively, technology will play a key role in increasing results

- Encouraging results are being achieved by <u>depolymerization</u> that allows to convert plastic fibers into yarns that can be used for manufacture garments; and by <u>near infrared spectroscopy</u> that allows to identify fiber types based on the chemical composition of the fiber to accelerate sorting of random clothes. Other patented solutions allow to separate synthetic fibers from cellulosic content

- <u>Blockchain technology</u> will increase control across all stages of recycling process, from people providing clothes to smart bins, to garments processed and transformed

- The outcome of closed loop recycling will feed manufacturing of new collections and driven by product design

- <u>Open loop recycling</u> is a secondary destination however will further reduce the amount of textile going to landfills or incinerated

- The remaining compostable fibers can then be shredded to become biological resources, enrich soil and activate regenerative cultivation

Change Management path to Circular Fashion

- Adoption of Circular Fashion requires a validated long-term strategy and a change management program handling company values, business objectives, stakeholder involvement, customer perspective and opinion, multiple simultaneous projects

- The Ispira team supports brands and retailers delivering circular fashion strategy to achieve corporate, financial, brand image, customer benefits. We convert long-term sustainability objectives into achievable, workable initiatives

Achievable targets

- *Define objectives through priority impact matrix*
- *Overall change management program organized by sequential achievements*

Company Mobilization

- *Bring Circular Fashion on top of company priorities*
- *Define project team and cross functional processes*
- *Approve work program , milestones, deliverable*

Stakeholder involvement

- *Adopt a transparent approach with suppliers, local communities, partners*
- *Create integrated project teams to deliver individual targets*
- *Identify partnership, collaborations, available tech implementation*

Results measurement

- *Monitor progress of each initiatives through measurable KPIs*
- *Quick reaction, consolidation of results*
- *External communication of achieved progress*

Next stage of evolution

- *Implement new process, activate partnerships*
- *Update Portfolio Management in light of results*
- *Activate following project*

about us

- We are a Retail and Direct-To-Consumer consulting practice providing vision, innovation and profitable delivery in omnichannel retailing, retail strategy, retail merchandising, retail experience, store marketing, sustainability, machine learning

- Founded in 2004 and with offices in London and Rome, Ispira is constituted of a team of senior retail professionals that operate internationally

- With over 20 years track record, we have gained high recognition in the industry for the ability to deliver strategy, evolution, best practices, bottom line results in highly competitive environments

- Our team of senior retail professionals operates in four main areas:

  - Strategy and innovation
  - Retail Best Practices
  - Retail experience
  - Circular Fashion

Strategy & Innovation

Retail Best Practices

Circular Fashion

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Retail Experience

Retail Intelligence

Omni-channel
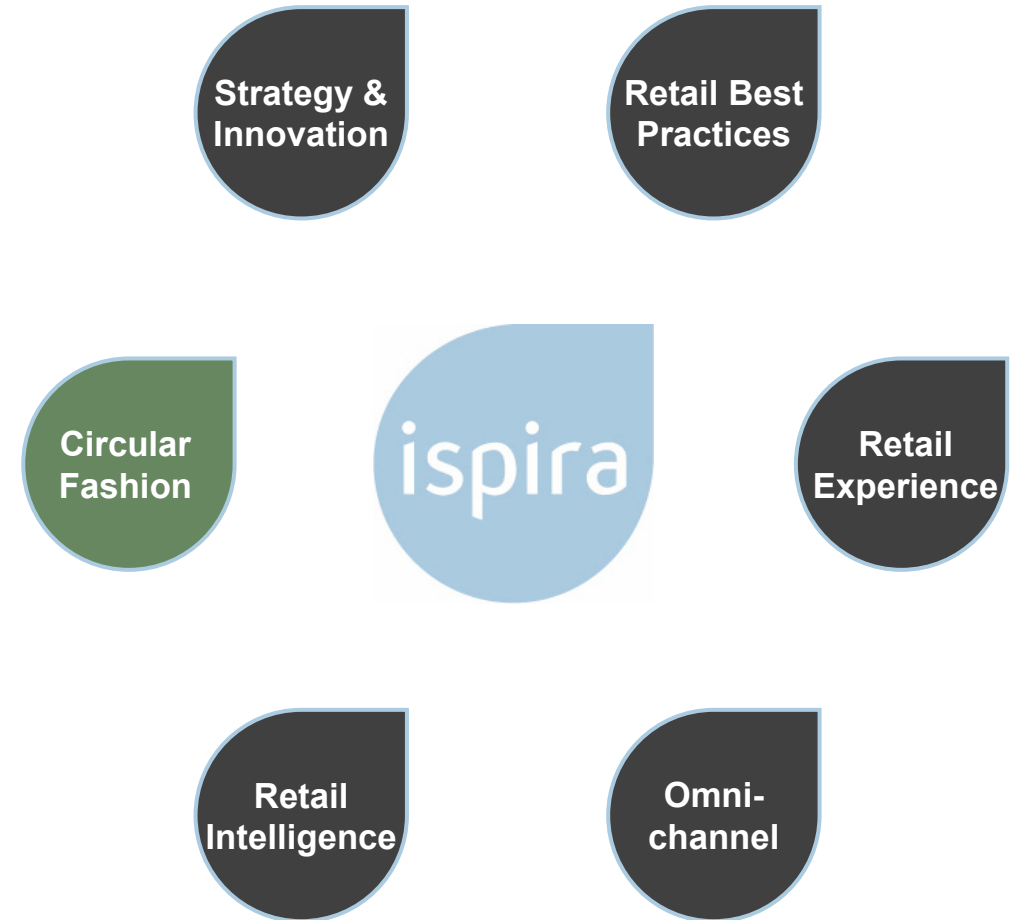
Passionate about Fashion, Retail and DTC

Team and experience

- Our team of strategists, retail experts and creatives have worked with leading international retailers in highly competitive markets. Some of our clients include:

Brand				
Adidas	Cortefiel	Hugo Boss	Miroglio Fashion Gr.	Prenatal
Alessi	Cucinelli	Iceberg	Mondadori	Promod
Allsaints	Dim/Hanes Brands	IC Group	Motivi	Ragno
Armani	Domus Acad./Naba	Imaginarium	M&S	Replay
Atlantia	Emerisque Brands	Intesa BCI	Nespresso	Safilo
Bata	Emporio Armani	KappAhl	Optissimo	Salsa
Benetton	Ferragamo	Latteria Soresina	OVS	Sia
Bialetti	Ferrari	Luisa Spagnoli	Ozwald Boateng	Springfield
Boots	Geox	Luxottica	Panorama	SunCapital Partners
Bottega Verde	Gloria Jeans	Malo	Parah	Terranova
Camper	GoldenPoint	Max&Co.	Peuterey	The North Sails
Carrefour	Gruppo Pam	Marella	Piazza Italia	VF Corporation
Coin	Harmont & Blaine	Marzotto	Primark	Zara

Contact us for on initial discussion on how Ispira's experience with leading international brands and retailers can support the implementation of your successful **Circular Fashion** strategy

Ispira Ltd

United Kingdom

60 St Martins Lane

WC2N 4JS, London

t: +44 20 7903 5385

Italy

Piazza del Popolo, 18

00187 Rome

Italia

"passionate about retail"

www.ispira.com   blog.ispira.com   info@ispira.com